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ABSTRACT

A project was conducted to assess the need for further education and training (FET) of the labor force. It documented institutional arrangements, policies, and practices regarding FET; analyzed their strengths and weaknesses; and considered possible action by public authorities. The concept of FET was found to have a strong economic character and to be firmly embedded in the more encompassing concept of lifelong learning. The greater reliance on labor force skills and competencies, combined with the increasing importance of lifelong learning, called for a broad societal response. The implications were broad and affected public policy in the areas of education, employment, labor, and social affairs. A risk of "dualism" or polarization on the basis of access to FET commanded attention. A politically acceptable formula for allocating the economic costs of FET in the context of lifelong learning was examined. The financing of FET closely connected to requirements of the workplace was more straightforward; financing of FET more closely related to general lifelong learning was more problematic. Research and development would be beneficial to the smooth operation of FET markets. Public authorities had high stakes in, but little control over, FET and skill formation. Strategies were needed to achieve change in favor of the public interest. (Appendixes include Conclusions of the Chair of the Intergovernmental Conference on Further Education and Training of the Labour Force and proposals for the Work Program.) (YLB)

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EMPLOYMENT, LABOUR AND SOCIAL AFFAIRS COMMITTEE

EDUCATION COMMITTEE

FURTHER EDUCATION AND TRAINING OF THE LABOUR FORCE: NEW DIRECTIONS FOR PUBLIC POLICY

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FURTHER EDUCATION AND TRAINING OF THE LABOUR FORCE

New Directions for Public Policy

(Note by the Secretariat)

1. This Note identifies areas in which public authorities need to act in order to improve the effectiveness, efficiency, and distribution of opportunities and arrangements for updating and upgrading the skills and competences of adults in the labour force. The note also places the issue of further education and training of the labour force in the context of the more embracing issue of lifelong learning.

2. The Note draws heavily on work carried out under the activity on Further Education and Training of the Labour Force, which was considered in the Intergovernmental Conference on Further Education and Training of the Labour Force (held in Paris on 26th-28th June 1991), and on the Conclusions of the Chair of that Conference. It was prepared in consultation with the Advisory Group on Further Education and Training of the Labour Force.

3. The Conclusions of the Chair of the Intergovernmental Conference on Further Education and Training of the Labour Force are found at Annex A.

4. A number of proposals for the programme of work for the Organisation are put forward in Annex B.

5. The Employment, Labour and Social Affairs Committee and the EDUCATION Committee are invited to:

i) COMMENT ON, DISCUSS, and APPROVE **New Directions for Public Policy**;

ii) ADOPT the **Conclusions of the Chair of the Intergovernmental Conference on Further Education and Training of the Labour Force (Annex A)**;

iii) COMMENT on the Possible Areas for New Work (Annex B) and NOTE that the Secretariat, in the light of comments, will provide further proposals for consideration in the Programme of Work as well as an indication of possible timing;

iv) NOTE that **New Directions for Public Policy** and **Conclusions of the Chair of the Intergovernmental Conference on Further Education and Training of the Labour Force** (Annex A) will provide the basis for a background document to be submitted to the meeting of the Employment, Labour and Social Affairs Committee at ministerial level on 13th-15th January 1992.

Background

1. In 1988 the Education Committee and the Manpower and Social Affairs Committee (now the Employment, Labour and Social Affairs Committee) approved a joint activity on Further Education and Training of the Labour Force (ED(88)9). Under this activity, a wide-ranging effort was carried out to assess the need for further education and training of the labour force; to document institutional arrangements, policies and practices regarding further education and training of the labour force; to analyse their strengths and weaknesses; and to consider possible action by public authorities. The evidence and analysis that has been carried under this activity was reviewed, and the implications for the roles and responsibilities of the social partners and public authorities considered at the Intergovernmental Conference on Further Education and Training of the Labour Force, which was held in Paris on 26th - 28th June 1991.

2. The conference was chaired by Mr. Ulf Sundqvist (Chief General Manager and chairman of the board, STS-Bank, Ltd.); the vice-chairman was Arthur Kroeger (Deputy Minister and Chairman, Employment and Immigration Canada). The Conference was opened by the Secretary General. Participants included senior policy makers from ministries responsible for education and labour market policies, industrialists, and trade unionists, as well as observers from Bulgaria, CSFR, Hungary, Poland, Romania, USSR, and Mexico, and a number of experts.

3. After reviewing the economic, social, and technological developments that raised the visibility of further education and training, the Conference identified and examined the different interests in further education and training outcomes of the employers, trade unions, and various public authorities. It then considered what is meant by markets for further education and training and analysed their major features and aspects of their operation, and identified problems interfering with their smooth functioning. It concluded by discussing the kinds of policies that need to be undertaken in order to address various problems that were identified in the conference.

4. In the closing session of the Conference, Conclusions of the Chair were presented (attached at Annex A) and briefly discussed. The considerations addressed by the Chair, which have significant policy implications and require further attention in the Organisation's Work Programme, are areas of action for public authorities: improving the overall skill formation process; the place of skills training within wider strategies for lifelong learning; articulation and transportability of labour force qualifications; partnerships in human resource development; managing and resourcing further education and training; improving human resource management, and better ensuring that improved skill formation transforms into economic growth and social progress.

5. The purpose of this note is to draw on the Conclusions of the Chair and the body of work carried out under the activity on Further Education and Training of the Labour Force, in identifying implications for public policy. Possible implications for the Work Programme are found at Annex B (**Possible Areas for New Work**).

Clarifying the Concept of Further Education and Training of the Labour Force

6. "Further education and training of the labour force" is a concept that defies too precise a definition because of widely varying institutional arrangements and traditions found in different member countries. Early in the activity, further education and training of the labour force was defined roughly with respect to two criteria:

i) Purpose: further education and training of the labour force was defined as that which was undertaken for the purpose of upgrading and updating the skills and competences of workers so as to improve their performance in the labour market;

ii) Target group: further education and training of the labour force was defined as something for experienced workers.

7. In the course of the activity, certain important implications emerged as a result of these criteria. One was that FET, in contrast to earlier concepts such as "recurrent education", had a strong economic character to it; indeed, the explicit economic purpose of FET explains much of the intense interest in the subject on the part of social partners, as well as public authorities with competence for labour market and economic policy. As such, the importance of FET was defined, largely, though not entirely, in more collective terms of enterprise and economy-wide competitiveness. Even the individual benefits of improved employability and productivity could be appreciated only in the broader economic context. But it also emerged that economic objectives were not the only force behind FET, or in other words, that FET was not always justified on economic grounds, particularly when it was undertaken with longer-term, developmental goals in mind. In this regard, the distinction between FET and concepts such as recurrent education began disappearing and in fact, FET came to be seen as being firmly embedded in the more encompassing concept of lifelong learning. Indeed, the two have come to be seen as mutually reinforcing -- learning on the job and learning for work benefits and benefits from more broadly directed and individually oriented learning through all aspects of adult life. As a result, though there may be some need for policy purposes to define aspects of FET, some distinctions will always be somewhat arbitrary and blurred at the edges.

8. There have also been important institutional implications due to the definition of FET that has been used. Further education and training is distinguished from initial education and training, the latter preceding employment. This has meant that in some countries the distinction reduces to one between schools and mainstream formal education arrangements for initial education and training, and everything else for the latter. But here too there is blurring in the distinctions. Initial education and training for one person may be FET for another, when, for example, an adult with limited reading competence undertakes a course in remedial education, or when a skilled machinist undergoes training next to a young apprentice to learn about computer numerically controlled machine tools. Sometimes the institutional setting may vary, with young students found during the day in traditional schools, and experienced workers found in special night classes. In fact the confusion in definitions reflects a very real confusion in institutional roles and missions.

Although the learning objectives of initial and further education and training may be similar, the circumstances and needs of of the learners are not; this demands that institutions involved in one or the other adapt in often radical ways if they want to do both.

Shaping Effective Policy Responses to the Problems with FET

9. As the Conclusions of the Chair point out, the greater reliance on labour force skills and competences (and the increasing cost of under-investment in human resources), combined with the increasing importance of life-long learning calls for a broad societal response. The implications are broad and profound, directly affecting public policy in areas of education, employment, labour and social affairs.

The Danger of Dualism

10. One of the features of the increasing complexity of modern society is that the same developments undergirding economic and social progress, can also divide society. Just as widely available education has been a key factor in economic progress for national and regional economies as well as for individuals, the lack of education is a debilitating handicap. Similarly, as technological innovation is an important factor in competitiveness, the inability to apply state of the art technology or to benefit from the process of technology transfer undermines productivity growth.

11. FET shows all the signs of following the same pattern. Those who have access to it -- whether at the level of national and regional economies, at the level of the enterprise, or at the level of the individual -- have a distinct and apparently growing advantage over those who do not. This by itself implies a risk of "dualism" or polarisation on the basis of access to FET, and therefore commands attention. What is more worrisome is that access to FET seems to be conditioned largely on a set of other factors, which by themselves are a basis of dualism: educational background and quality of employment.

- Level of initial educational attainment appears to be the single most important determinant of participation in FET. Persons with very low levels of initial education and training are much less likely than others to participate. Some of this is no doubt related to the role played by educational credentials in determining the kind of jobs for which persons are selected, and the fact that FET, in turn, is associated with more demanding jobs. But initial qualifications appear also to have an effect on the efficiency with which workers can learn on the job and in FET.

- The quality of employment also tends to be a controlling factor in determining access to FET. Workers in part-time, fixed-term employment have less access than full-time, permanent workers. There are also firms that for a variety of reasons (competitive circumstances in the product market, general business strategy) train less than others. More generally, employed persons have better access to enterprise-driven FET than the unemployed or those out of the labour force.

12. All of this would suggest that the disadvantages linked to low levels of educational achievement, a lack of vocational qualifications, under-employment and unemployment are repeated and amplified with regard to FET.

13. As the economic and social costs of these earlier failures are compounded, there is more intense pressure on education, employment, labour and social affairs policy to minimise them or build in mechanisms for reversing them. In order to reduce the risk of FET aggravating the problem of dualism, there is a need to:

1) reduce the likelihood of young persons leaving school with inadequate basic educational competences or inadequate vocational qualifications;

2) adapt publicly supported education and training institutions to meeting the teaching and learning needs of adults with low literacy levels;

3) ensure that access to high quality FET is not contingent on employment in stable jobs or in firms that are heavily engaged in providing FET.

The Central Importance of Lifelong Learning

14. Where adult participation in educational programmes once may have been a cultural luxury for a few, it is now an increasingly universal economic necessity. The pervasiveness of information technology and the importance of being able locate, gain access to, and use information in a variety of forms and from innumerable sources makes lifelong learning necessary for immediate work demands, for job and occupational mobility, and for full participation in society.

15. Yet its economic significance cannot overshadow its larger importance. Lifelong learning embraces the teaching and learning activities needed to maintain and develop adult literacy, as well as reinforcing and motivating more active learning for broader cultural and social purposes. Indeed, as its value increases inside and outside the workplace, the process itself needs to straddle the two worlds, because it is increasingly difficult to separate them neatly, but also because learning inside and outside the workplace can be mutually reinforcing.

> "To the extent learning can be made a more integral part of work, there will be enormous progress in making it an important part of adult life outside the workplace as well. Conversely, if the habit of learning through all aspects of life takes root, workers can only be more effective on the job." (**Conclusions of the Chair** -- Annex A)

16. For this to happen requires re-thinking and re-structuring the institutions and ideas surrounding education and training and work. In a word, education and training institutions need to accommodate the needs of adults, and work needs to accommodate better the need to learn. The former requires adapting curricula, pedagogies, and andragogies to the diverse learning needs of a heterogeneous adult population, and ensuring flexible hours of operation

and modes of instruction for institutions engaged in FET and other forms of life-long learning. The latter requires understanding better the relationship between learning on the job and variables such as work organisation, job classifications, pay structures, and the changing role of supervision.

Financing FET in the Context of Life-long Learning

17. A politically acceptable formula for allocating the economic costs of FET in the context of life-long learning among the different actors depends on ensuring a high degree of symmetry between respective burdens and benefits. The financing of FET that is closely connected to the requirements of the workplace is more straightforward since the presumed economic benefits are more transparent and materialise more quickly. Much of it eventually can be self-financing by employers and employees so long as the mechanisms are in place to ensure appropriate pricing of FET and appropriate economic returns from it, and to allow employers and employees to treat FET as a true investment (these points are discussed further below).

18. For a variety of reasons, however, some FET will always need to be financed by public authorities. Because of the peculiarities of their particular jobs or turnover patterns, some workers will not be trained by their employer. Others, because of limited educational qualifications or for other reasons, are unable themselves to pay for the full extent needed of basic skills remediation and vocationally specific training or re-training.

19. The financing of FET that is less-closely related to immediate job requirements, and is more closely related to general life-long learning activities is more problematic. The benefits to individuals and employers are less transparent and more remote in time, and therefore less certain, thus reducing their willingness to pay. At the same time the societal benefits of a culturally and technologically "literate" populace are more definite, particularly if such literacy facilitates the process of learning on and off the job, suggesting that a substantial public contribution is justified.

Ensuring Smooth Operation of FET Markets

20. The "FET market" is a concept that varies from country to country in its definition and operational significance. Broadly defined, it rests on certain assumptions:

- that at least for the more structured forms of institutionally-based or institutionally-directed forms of skill formation, there are multiple providers providing more or less differentiated forms of FET that are more or less able to be substituted for one another;

- there is a demand for training differentiated according to the nature of individual qualifications and requirements associated with different forms of work organisation and corporate structure; demand can also be influenced by such considerations as the degree to which unstructured forms of skill formation can substitute for highly formalised FET, and the level and predictability of the return for improved proficiencies;

- that providers are able, at least approximately, to evaluate their costs, and those seeking training are able similarly, to evaluate its return so that a pricing mechanism can come in to play to equilibrate these notions of supply and demand.

21. Though the degree to which these assumptions are met varies, the concept of FET markets holds promise as a guide to policy across broad areas of education, labour market, and industry policy. Smoothly functioning FET markets will contribute to an efficient allocation of resources for skill formation and, in particular, provide the incentives for improving the efficiency of institutional providers, as well as having a knock-on effect of improving the allocation of skilled workers in the labour market. But FET markets would benefit from the kind of structure, standard setting, and general market-making roles that public authorities play in labour markets, capital markets, and a variety of other factor and product markets. There are several areas in which active public interventions, as well as further research and development would be beneficial.

1) Frameworks are needed for the definition, measurement and recognition of skills and competences acquired in FET and skill formation. These may be more, or less, complicated, depending on the nature of arrangements already existing, and the extent to which arrangements for initial education and training might be adapted to FET. In developing such frameworks, care needs to be taken to meet the needs of employers in evaluating worker qualifications for work, and to ensure that such "standards" or "measuring sticks" can be translated into the language of education and training institutions needing to place individuals, and vice versa.

2) In a similar vein, there is a need for an overview if not supervisory function to monitor the quality of FET on offer. This might be managed in connection with a more general clearinghouse function for keeping track of the nature, level, cost, and other aspects of FET on offer, for the purpose ensuring that those seeking training (individuals as well as employers) have access through counselling and other channels to the information they need to make informed decisions.

3) There needs to be a climate that encourages formal education and training institutions as well as less traditional providers, such as enterprises and professional associations, to provide FET. This implies that regulatory frameworks and procedures that affect collection of information or "accreditation", or that otherwise influence the climate in which current and potential suppliers of FET operate, must be adaptable and responsive so as to not discourage potential providers from entering FET markets.

4) Where credible and transparent mechanisms for measurement and recognition of skills and competences are established, public authorities may wish to encourage, a better linkage between recognised skills and competences and wage levels, so that wages signal better the skill preferences of employers, while also ensuring that employees enjoy the benefits of acquiring higher levels of

proficiency. Public authorities should also determine which steps are necessary to ensure that FET and other forms of intangible investment are treated more like tangible investment.

5) Providers of FET, especially those involved in providing a variety of other forms of initial and publicly-supported education need to be able to measure accurately their costs.

Orchestrating Policies and the Actions of Social Partners

22. FET and skill formation outcomes are the product of actions by social partners, frequently beyond the direct influence of public policies, and the interaction of multiple public policies touching on everything from formal education to labour markets, to tax and industry policies affecting business strategies. As a consequence, strategies for achieving changes in those outcomes require a thorough understanding of what motivates the social partners and how they pursue their interests, the identification of multiple "pressure points" for influencing social partner actions, and orchestration of multiple public policies to act on those different pressure points.

23. Put differently, public authorities have high stakes in, but little control over FET and skill formation. The public interest is incidental to the dynamics of FET and skill formation, which are driven instead by the social partners pursuing their respective self-interests (for example, maximising earnings and return on investment for employers, and maximising employment security and earnings for trade union members). Strategies to achieve change in favour of the public interest need to rely less on changing the respective interests of the social partners than on ensuring that the outcomes of the social partners pursuing their interests are more favourable from the public point of view. This depends heavily on an indirect approach of policies influencing the "rules of the game" -- how costs against earnings are defined, for instance, or what is at stake with employment security. This depends in turn on ensuring that diverse public policies formulated in isolation of one another do not work at cross-purposes and create conflict that, at the level of implementation, may discourage FET and skill formation by the social partners.

24. Achieving such coherence in the impact of public policies requires nothing less than a reversal of the top-down policy formulation and policy evaluation process that is typically associated with an area in which public interests determine public policy, and public policy directly affects outcomes. Policy formulation needs to be based on a thorough understanding of the "black box" of FET and skill formation dynamics. This includes identifying the factors -- public policy as well as business strategy -- which affect FET and skill formation behaviour, and learning how they interact. At a minimum, this require a higher degree of consultation between public authorities and social partners than either side may be accustomed to. Close attention is needed to the issue of the nature and extent of public intervention as partnerships emerge.

25. After the fact, there is need for a policy evaluation process that is sufficiently open-ended to assess impact and implementation not simply with reference to the public objectives, but with reference to the objectives of the social partners on whom such policies are impacting. Such monitoring from the client point of view should take into account the transparency and simplicity

of service delivery (such as training, counselling, and information services), as well as the intended and unintended impacts of various policies (and their interaction) on the incentive structure facing the various actors.

ANNEX A

INTERGOVERNMENTAL CONFERENCE ON
FURTHER EDUCATION AND TRAINING OF THE LABOUR FORCE

CONCLUSIONS OF THE CHAIR

A Crucial Consensus

26. An important lesson of the 1980s and early 1990s has been that high levels of aggregate demand and technological innovation alone were incapable of driving economic growth or ensuring social progress. The OECD's work on **structural adjustment and economic performance** in 1987 demonstrated unequivocally that inadequate labour force qualifications were a drag on economic growth. **New Technologies in the 1990s** drew attention to the importance of the interdependence of technical, economic, and social change, and the need for concerted effort in all three areas in order to achieve economic growth and social progress. In so doing, that foreshadowed the organisation's work on **Technology and the Economy** and the influence of labour force qualifications on the dissemination, application, and ultimate economic consequence of technological innovation. The **Intergovernmental Conference on Education and the Economy** in 1988 pin-pointed the role of further education and training for experienced adult workers as a strategy for dealing with the need for more qualified workers. Finally, **Education Ministers** last November pointed out the importance of further education and training and validated its role in the context of the principal of life-long learning. Throughout this time, ministers in the annual **Council Ministerial** have stressed repeatedly the importance of education and training as a policy lever for facilitating and easing the transition costs of structural adjustment and improving economic performance, while furthering social progress. BIAC and TUAC have echoed that theme, separately and, in 1988 and 1990, jointly.

27. I think we can agree. Efficient diffusion and application of advanced technologies depend as much on the people who use them as on a wide spectrum of collateral social, organisational, economic, legal, even cultural changes. The skills and competences of the workforce, from production workers to senior management, are proving to be crucial determinants of productivity and competitiveness. This makes human resources central to economic performance and growth.

28. But consensus notwithstanding, we have yet to make much progress on further education and training of the labour force -- on the scale on which is needed. This Intergovernmental Conference on Further Education and Training of the Labour Force has set out to investigate why.

Analysis of the Problems and Context

29. At present there is a variety of questions posed about the adequacy of the skills and competences of today's labour force in OECD countries, which both compounds the importance of, and complicates the process of, further education and training of the labour force.

1) Technological innovation, the shorter product cycles, the internationalisation of markets, and the intensified pressure for greater competitiveness and productivity, require substantial changes in the management and organisation of work, aimed at diminishing the structural problems that hamper the development of high performance in the workplace.

2) Two patterns in the occupational composition of employment are being observed. In one, jobs for workers who are least qualified are disappearing; in the other, much of the middle levels in work organisation are disappearing. Both patterns contribute to a "dualism" in employment, that isolates increasingly the least qualified from secure and rewarding jobs.

3) This dualism is reinforced as the threshold of minimum skills and competences required for stable and secure employment rises. As qualifications requirements for higher level jobs are increasingly changeable, the shortening of the economic life of any given vocational qualifications is rendering obsolete the notion of once-and-for-all vocational preparation.

4) Yet just as the pressures for new and higher levels of qualifications intensify, demographic developments are reducing in most countries the number of young workers entering the labour force with higher levels of more up-to-date skills and competences. This is leading to greater reliance on groups (e.g. elderly, women, part-time and under-employed workers) who presently are not in the labour force, and are also less qualified than others already working.

5) Parallel to these developments which require a greater emphasis on labour force qualifications, there is a risk that many firms rely more on non-standard forms of employment -- fixed-term and part-time employment contracts -- as part of a strategy of maximising flexibility and adaptability. In reducing for many workers the opportunity for and benefits of training, while also reducing the benefits of training for employers, the dangers of dualism are compounded.

30. A further complication is the lack (a total absence in some countries) of transparent, and credible means for evaluating the skills and competences that workers acquire through experience and further education and training, and for evaluating labour force qualifications. The resulting danger of skills mismatches is further exacerbated by out-dated occupational classifications and work-rules, and apparent deficiencies in the management of human resources within enterprises and at the workplace.

Emerging Societal Goals

31. Skills and competences are assuming more importance as determinants of the competitiveness of enterprises, the economic performance of national and regional economies, and the labour market fortunes of individuals. Conversely, the cost of under-investment in human resources -- to enterprises, individuals, and society -- has wide repercussions. While the recent changing social,

technological, and economic developments in the OECD countries may have solved certain problems, they have posed new dilemmas that call for restating societal goals and re-negotiating the social contract.

1) *Building an active society and an appropriately qualified labour force*: Meeting the needs of society, the economy, and the demands of increasingly active forms of work organisation in the late 20th century and beyond calls for an appropriately educated population and qualified labour force. For this to happen, labour market authorities need to confirm their concern, through active labour market policies, for those who are immediately at risk, and to ensure that the longer term skill formation needs of the labour force as a whole are adequately met. Education authorities need to ensure that the educational implications of the changing economic environment are thoroughly understood and addressed, while preserving the social and cultural mission of education.

2) *Broadening and deepening the foundation of initial education and training* It is unacceptable to allow young persons to enter the labour market lacking the qualifications they need for initial employment, or the foundation of basic competences needed to learn efficiently on the job and participate fully in further education and training. Education and training beyond the compulsory level frequently is -- by design -- highly selective and specialised. These systems of initial education and training leave many young people with low levels of educational competences and limited vocational qualifications to fend for themselves in increasingly demanding labour markets. In societies in which the opportunities for persons with no or low levels of qualifications are few (and becoming fewer), there is a need for nothing less than the commitment to "total quality" that BIAC and TUAC advocated in their joint statement to Education Ministers. This calls for re-thinking the mission, structure, and methods of initial education and training.

3) *Making a commitment to life-long learning*: The commitment to life-long learning must be framed in terms of workplace needs as well as larger social and cultural aspirations: the different orientations are not mutually exclusive, and are in fact, mutually reinforcing. To the extent learning can be made a more integral part of work, there will be enormous progress in making it an important part of adult life outside the workplace as well. Conversely, if the habit of learning through all aspects of life takes root, workers can only be more effective on the job.

4) *Closing the gap between haves and have-nots:* If OECD countries are to prevent short-term economic displacement from turning into chronic social, cultural, and economic alienation for large numbers of their citizens, there is need to minimise the risk of young people entering the labour market with little in the way of vocational qualifications; to close the gap between under-qualified, functionally illiterate adults and others; and to ensure that those without the resources for, or access to, the requisite further education and training have a better chance of updating and upgrading their skills and qualifications.

Principles Underlying Sound Partnerships

32. Not all is right with the provision, availability, or effectiveness of Further Education and Training: changes are needed. But those changes need to be based not on the social partners changing their interests, but on changing their effort so that skill formation and human resource development are more useful a strategy in the pursuit of those interests. This requires, among other things, re-defining "the rules of the game" that affect the scale and the flow of costs and benefits of skill formation.

33. The enterprise is central, as a provider and consumer of further education and training, but most importantly, as the arena in which the first order economic consequences of it play out. If employers are expected to provide FET they may need more assurances of being able to treat training costs more like investment costs, or they may need to be given incentives to adopt longer time horizons.

34. If trade unions and individuals are expected to meet the costs for training themselves, they need better assurances of the returns from training in the form of better links to issues such as quality of work, pay, and employment security.

35. In short, there needs to be greater symmetry between the costs borne for training by each of the respective actors, and the benefits enjoyed from it. Public policy plays a vital role in re-defining the rules so as to make that happen.

Guides to Public Policy for Further Education and Training

36. A great deal remains unknown about the extent of FET and skill formation activity, to say nothing about the process by which they translate into improved proficiency on the job, or what determines precisely how much training is needed. This is because of uncertainty regarding the relationship between tangible investment and skill formation: the measures of FET and skill formation effort, and even the measures of labour force qualifications are ambiguous and imprecise. The extent to which apparent skills shortages are real and the extent to which they indicate under-utilisation of available skills is not known. In short, there are many unanswered questions about how some of the problems and deficiencies with FET might be remedied. But the contours of many of the problems are understood, at least well enough for substantial policy making in this area.

1) *Improve the operation of markets for further education and training*
Smoothly functioning labour markets are critical to the efficient allocation of labour, as well as other factors inputs, and to sustaining economic performance, and ensuring that it translates into social progress. But as skills and competences of workers assume more importance, the efficient functioning of labour markets depend more and more on smoothly operating markets for further education and training. Public authorities have a role in making this happen. First, they can, in co-operation with the social partners, establish mechanisms, for better evaluating and recognising the skills and competences that workers acquire through experience and further

education and training. Second, they can improve the availability of information about the nature, method of provision, and cost of further education and training on offer through clearinghouse operations, guidance and counselling (for enterprises, as well as individuals), and by monitoring its quality. Third, to the extent that publicly-supported institutions provide further education and training, it is important that the regulatory framework and incentive structure in which they operate encourage cost-effectiveness and responsiveness to market forces, without jeopardising the provision of other educational activities.

2) *Financing of further education and training* If FET markets function well, FET should be largely financed by those who enjoy its direct benefits (enterprises and employees). To the extent there is "under-investment" in FET, a central cause appears to be a lack of symmetry between the burden of financing it and flow of benefits from it. The underlying question with regard to finance, then, is how to improve the scale and likelihood of the pay-off from FET to each of the different actors. This suggests that there is need for ensuring that the appropriate mechanisms and incentives are in place, both so that the various actors can be sure of reaping the benefits of FET and skill formation, and so that the financial risks of training can be minimised.

   If employers are to undertake training expenditures as true investment, changes in accounting standards are needed to allow treatment of worker qualifications as assets (this will require systems for assessment and recognition). More parallel treatment of FET and tangible investment might also be achieved by giving intangible investments, like training of workers, a tax treatment comparable to that of tangible investments. Incentives to train might be further strengthened by linking the tax treatment of tangible investment to training of workers.

   If employees are expected to shoulder a greater share of the financial burden of training, the link between acquired skills and competences on one hand, and wages, career prospects, employment security, or the quality of work on the other, needs to be more transparent and predictable (this too will require among other things, mechanisms for assessing and recognising skills and competences).

3) *Ensure adequate access to FET* Market forces will not necessarily lead to a socially acceptable distribution of training resources; a public role is needed to ensure access for those with little power in markets because, for instance, of a lack of resources or information or because they are not receiving training in connection with work (FET cannot be contingent entirely on employers providing it since it may not be needed for performing some jobs). It is especially important that the tendency among many large firms towards greater contracting out of services and supply activities, and the trend towards more "peripheral employment" through fixed-term and part-time employment contracts do <u>not</u> lead to a polarisation of FET

opportunities. Public measures by labour market authorities in particular may be needed to connect better "internal" and "external" labour markets with respect to the training opportunities they provide.

4) *Preserve the full spectrum of skill formation activities* In fashioning public policies to encourage FET, it is important that policy interventions not crowd out less-structured, informal forms of skill formation. Other forms of skill formation are complementary to FET, and in some circumstances appear to be substitutes (less expensive and more effective) for FET; they are an important source of skill formation for adults with limited initial qualifications.

5) *Enhance the quality and efficiency of FET provision* Since public providers have a large, if not dominant share of FET markets, public authorities are well-situated to improve the overall pay-off to FET by increasing its efficiency, thereby reducing its cost. But because the organisation, methods, and strategies of so many public providers are rooted in the provision of initial education, there may be need for nothing less than major restructuring, like that in other industries overtaken by structural change. Changes are needed to upgrade and update infrastructure, re-train the trainers, modernise equipment, and introduce new, more efficient configurations of teaching and learning technologies, pedagogies and andragogies to meet the diverse learning needs of adults. The process of conversion will be facilitated and accelerated where public providers are encouraged to supply FET on a fee-for-service, full-cost recovery basis (essentially acting as private providers).

6) *Improving public service through FET* In the public sector more generally, FET has a role to play identical to that in enterprises. It is crucial to upgrading the skills of the public sector workforce, for the purpose of enhancing its performance thereby improving the quality, effectiveness, and efficiency of public services.

7) *Ensuring coherence in related public policies affecting FET activities by firms and individuals* The end purpose of FET is to upgrade the skills of the workforce, in order to achieve greater effectiveness and higher performance. But such performance is as dependent on investment decisions, management practices, and work organisation as it is on the general business strategies of firms. As a result, a number of public policies apparently unrelated to FET, such as those affecting everything from employment security, to accounting standards, to the tax treatment of investment, can in fact influence training strategies through their direct influence on these other factors. The implication is that improving FET and skill formation depends on ensuring that there is coherence in a number of different public policies, or at the very least, that they do not work at cross purposes to policies intended directly to foster FET.

37. When the Employment, Labour and Social Affairs Committee meets at Ministerial level in January 1992, it is hoped that Ministers will draw on these guides to public policy in elaborating on the role of further education and training and skill formation within the New Framework for Labour Market Policies.

Looking Ahead

38. While policies are developed and implemented (some on a trial and error basis), there needs to be continuous effort to monitor and evaluate them, and to upgrade the quality of information and statistics on FET and skill formation in order to permit the analysis necessary to resolve at least some of the unanswered questions.

39. In particular, there is need for the OECD, in co-operation with Member Countries:

1) to continue to promote development and collection of more accurate, more reliable information on FET and the related process of skill formation;

2) to better understand the dynamics of FET and the skill formation process, their relationship to other variables affecting performance of individuals on the job and of enterprises, and their role in the overall process of productivity improvement;

3) to further analyse the functioning of FET markets and their relationship to developments in the structure and operation of labour markets;

4) to deepen and broaden understanding of the ways in which skills and competences acquired through FET and experience might be better identified, measured, and recognised.

5) to intensify work on curriculum and teaching and learning technologies (including distance learning) to more effectively reach persons with low levels of literacy and numerous skills, and those who, for geographical and other reasons, lack access to further education and training.

40. It is important as well to understand better the role of FET and skill formation in technology innovation and diffusion, to identify best practices of that process at work, and to develop and promote policies that further support technology innovation and diffusion and ensure that the consequent economic performance goes hand in hand with social progress.

ANNEX B

Implications for the Organisation's Work Programme

41. Large-scale, broadly-based approaches to FET, as it has come to be defined, and life-long learning have yet to be articulated in most OECD member countries. While important elements of such "systems" do exist and function well in some countries, the need for more universal and comprehensive arrangements has been appreciated only recently. The means and know-how for establishing such approaches have been lacking. This is partly because there are limits on what can be borrowed or adapted from the more uniform public systems of education and training. It is exacerbated by the different constituencies and motivations for FET, at least initially, that root it deeply in concerns for economic performance and competitiveness. This different orientation of FET may have tended to set it apart from much of initial education and training, and in so doing, limited the opportunity for "cross-fertilisation".

42. The effect of these institutional stumbling blocks has been compounded by the slowness with which the full implications of the greater appreciation for labour force qualifications have worked through the very conception of labour markets. It is becoming more accurate to talk about skill markets than crudely differentiated labour markets. This suggests that there is a need for mechanisms to allow a higher degree of differentiation among workers with different skills and qualifications in order to ensure more efficient allocation of labour resources.

43. For these and other reasons, there are a broad range of topics and phenomena that could be investigated more thoroughly as a first step in formulating effective policies.

44. There is urgency to dealing with these questions. The social cost of inadequate skills and competences and a lack of access to skill formation is rising; at the same time, the potential "at-risk" population, a major concern of policy makers, is increasingly hidden in non-standard employment and beyond the reach of active labour market measures until it is too late. These costs compound the very visible costs to productivity improvement and economic competitiveness.

45. While much of this work can be done only within the context of national traditions, legal frameworks, and institutional arrangements, some would benefit from being carried out from the international perspective of the OECD. Five major areas of possible new work to follow up on the issues raised under Further Education and Training of the Labour Force are outlined. Though some of the work can be identified clearly with one committee or another, much of it cuts across committee lines. Where appropriate, linkages will be established in other Directorate projects, as "Higher Education and Employment, Recent Developments in Continuing Professional Education" (EDC) and Human Resources and Lifelong Learning." (CERI), including those in other parts of the Organisation.

1. **Definition, Assessment and Recognition of Skills and Competences** (EDC/ELSA)

If actions in favour of FET and skill formation are to be more than symbolic, there must be mechanisms for defining, measuring, and recognising skills and competences more accurately, transparently, and credibly than possible now. Until and unless that is possible, there is little hope for public policy, individual behaviour, or enterprise practices to yield consistent productivity and competitivity gains.

i) There will be little basis for judging the content and quality of FET outcomes, thus severely restricting the criteria for competition in FET markets and limiting the potential for improving efficiency and effectiveness in the provision of FET;

ii) There will be little basis for evaluating the skills and competences that workers have acquired through experience, and more generally evaluating the effectiveness of learning strategies in "high performance" enterprises;

iii) There will be little basis for linking participation in FET or skill formation to wages or employability, meaning that there will be little reason for individuals to shoulder any costs of FET or skill formation;

iv) There will be little basis for enterprises to determine whether technology acquisition strategies are compatible with workforce qualifications, or for developing more effective human resource management strategies;

v) There will be continued risk of mismatches between the skill formation that is required and that which is provided.

It is suggested, therefore that work on assessment and certification that was begun under the activity on Further Education and Training of the Labour Force be expanded and intensified. Such work should, among other things, identify and assess the standards or "measuring sticks" for defining skills and competences, the mechanisms for measuring skills and competences, and the mechanisms for recognising them, including the ways in which wages and salaries are linked to skills and competences. In so doing, there is also a need to investigate how the "language" in which skills and competences are described differ as between education and training institutions and the workplace. Such work should consider national practices, such as those in place for initial education and training, as well as those for assessing experiential learning for the purpose of placement in academic studies.

2. Learning and the Workplace

The overall skill formation process depends not just on FET, but on i) the relationship of FET to other parts of the full spectrum of skill formation activities; and ii) the organisation and re-organisation of work that takes place in connection with changed in technology and worker qualifications.

It is proposed that three streams of work be initiated to further understanding about the dynamics of the skill formation process and the inter-relationships of the various elements affecting it.

a) **Evaluating changes in work organisation** (CERI/ELSA) The organisation of work is the critical complement to changing technology or changing worker proficiencies. The productivity pay-off to the introduction of advanced technologies or changes in worker qualifications is heavily dependent on transforming work organisation, at the level of the workplace, as well as at the level of the enterprise (flexible manufacturing systems may produce only marginal improvements in productivity if business strategies are still based on large batch, undifferentiated production; training may yield only marginal improvements if basic work tasks remain the same). Although this is well understood at a general level, analysis of the phenomenon is rooted in case studies from which it is difficult to generalise policy implications. Consequently, as difficult as it is to evaluate FET effort, for example, it is even more difficult to evaluate changes in work organisation for the purpose of assessing potential impacts of investment activity, monitoring structural adjustment, etc.

b) **Meeting the needs of the adult learner in the workplace** (CERI) This would be undertaken as an expansion of the ongoing CERI activity on The Literate Worker, to investigate further how adults learn in the workplace; what the relationship is between FET, other forms of skill formation (as substitutes, as complements), and the organisation of work; how those relationships can be improved; and what affects the cost and effectiveness of different forms of skill formation for different adult populations. Work would be based on the identification and analysis of best practices.

This part of the activity would draw on available case study evidence and possibly undertake new case study analysis for the purpose of investigating whether a taxonomy of work organisation features could be developed, and exploring the feasibility of collecting direct statistics on or constructing indicators of changes in work organisation.

c) **Minimising segmentation in FET opportunities** (CERI/ELSA) The line of demarcation between "internal labour markets" (within which screening and selection for training and promotion occurs inside enterprises), and "external labour markets" (within which hiring decisions are made) is blurring. The increase in non-standard forms of employment (fixed duration, part-time employment), together with a greater tendency among firms to carry out work through sub-contractors and suppliers is creating new forms of employment with limited access to skill formation, as well as less employment security and more limited fringe benefits. More generally, there is a risk not only of skill formation, but of pensions, health care and other forms of social security becoming uncoupled from employment. These developments and their implications should be documented and analysed more fully.

3. **FET as an Investment** (EDC/Industry Committee/Committee on International Investment and Multinational Enterprises)

The actual treatment of FET by enterprises has not caught up with the rhetoric about the strategic importance of human resources and skill formation strategies. Skill formation decisions are still made largely independent of decisions about tangible investment, even when the latter has obvious implications for the former and vice versa. National accounts fail to provide any information on FET -- as either an investment or an operating cost of business. Intangible investment in general is not reported despite wide acknowledgement that its scale and economic significance is large and growing relative to those of tangible investment.

The reasons for the "non-status" of FET and skill formation are complex and inter-dependent. One critical element discussed above is the lack of agreed upon mechanisms for signalling skills and competences. But that appears to be symptomatic of the absence of an economic framework for skills and competences, rather than a cause. More fundamentally, accounting standards and statistical practices have failed to catch up with the reality of the growing importance of intangible investment in general, and FET and human resources in particular. This was demonstrated in the OECD's Technology and Economy Programme (TEP) as well as in the work on further education and training of the labour force. The failure to adapt accounting standards to measure FET as an investment and to allow skills and competences to be treated as assets (for either individuals or enterprises) appears to be at the root of the problem. The main arguments against doing so rest on (i) the difficulty of putting a monetary value on FET investment activity and human resource assets, and (ii) the absence of a framework in which those "assets" are somehow recoverable.

The immediate result of the present treatment of FET and skill formation is to segregate decisions about them from investment decisions, thereby downplaying their importance relative to investment. For individuals, there is no asset value to education and training, meaning that, ultimately, there is little in the way of

capital markets to help finance it. Public tax policies frequently limit severely the extent to which individuals can deduct FET costs (direct or indirect) for tax purpose.

Perhaps most seriously, the present treatment of FET and skill formation reinforces the precarious financial position of training activities in firms. Within the framework of public tax policy, most countries treat training expenses for firms as operating costs -- costs of doing business that are (therefore) totally deductible from earnings in the year in which they are incurred. However, the implication is that firms cannot spread the cost of training over the period of time in which they will be realising its benefits. As a result, the pressure on firms from shareholders to maximise earnings exerts irresistible pressure to cut training costs during business downturns -- precisely the time when excess capacity allows the time for training.

It is suggested that this activity examine the principal factors contributing to the present accounting and subsequent statistical treatment of FET, skill formation and the skills and competences of workers, and explore possible changes. The activity should consist of four parts:

i) The first would be carried on in co-operation with the work of the Working Group on Accounting Standards which reports to the Committee on International Investment and Multinational Enterprises. It would examine the feasibility of adapting accounting standards to better capture the investment value of FET and skill formation, as well as the asset value of skills and competences. This work would be co-ordinated with work on Definition, Measurement and Recognition of Skills and Competences, as well as work initiated under the Technology and Economy Programme to explore more flexible treatment in accounting standards of intangible investment more generally.

ii) A second part would be carried on in co-operation with the Industry Committee's Working Party on Industrial Statistics. The purpose would be to investigate the feasibility of National Accounts measuring better FET and skill formation activities, as well as labour force skills and competences.

iii) A third part, to be carried on in co-operation with the Industry Committee's examination of intangible investment, would document the tax treatment of education and training costs by individuals and by enterprises in OECD countries.

iv) The fourth part would continue the proposed work of the Expert Group on Training Statistics as outlined in their report to the Education Committee and Employment, Labour and Social Affairs Committee **Report on Training Statistics (SME/MAS/ED/WD(91)2/REV1.**

The micro economic theory of the firm, an important underpinning to many techniques of investment analysis, is in need of further development and enrichment to ensure that it captures better the costs and benefits of FET and skill formation. Presently, its power to explain is limited by a number of developments:

- the changing notion of what is meant by the firm (complicated by the greater use of sub-contracting and out-sourcing);

- the apparent potential of human resource development strategies as an element of overall business strategies;

- the relative decline in the importance of "brick and mortar" investment in the face of the growing importance of "intangibles", such as R&D capacity as well as workers qualifications as assets.

The results of this work should be presented eventually to the Employment, Labour and Social Affairs Committee, because of possible implications for the way in which labour market operations are visualised and labour market policy formulated. Over the longer term, it might be helpful for the Education Committee in consultation with the Industry Committee and the Employment, Labour and Social Affairs Committee, to review the outcomes of the four parts of the activity on FET as an Investment, and discuss the implications for the micro-economic theory of the firm.

4. **Adapting Public Institutions to Competing in FET Markets** (EDC/PEB/IMHE)

In most OECD countries the bulk of FET is provided by publicly supported institutions whose principal mission has been to provide initial education and training. While there is wide acceptance that market forces will provide the most timely and reliable signals as to what kind of FET is needed, where it should be provided, how it is to be assessed and so forth, many public institutions are poorly equipped to either read and interpret those market signals, or to act accordingly. Their missions, management, governance, budgeting, and accounting practices remain adapted instead to longer time horizons, the dictates of public policy, and the provision of education and training as a semi-public good.

There is a need therefore, to facilitate the transition that is necessary if public institutions are to compete effectively in FET markets. A smooth transition is necessary for the sake of achieving efficiency in FET markets. In the course of that transition though, it is important that the fundamental educational mission of these institutions does not suffer. It is crucial to safe-guard the pre-existing systems of initial education and training. At the same time, there is a need for adequate resources and appropriate incentives for institutions so as to ensure that at-risk persons requiring intensive, long-term education and training interventions are served adequately, even if they are unable to pay full costs.

The proposed activity should consist of two streams. One, focusing on institutional management issues, should identify institutions that successfully compete in FET markets, and document the principal adjustments they have made (re-training of trainers, compensation for staff, linkage with ongoing programmes -- instructional as well as research, costing and pricing practices, marketing, e.g.), and prepare handbooks and a series of seminars as guidance for national authorities as well as institutional managers.

The second should undertake an encompassing analysis of adult learning needs, especially for the needs of adults with limited educational backgrounds -- the ones presently least likely to participate in FET. Specifically, this should consider how curricula, teaching and learning technologies, and learning settings can be adapted to the learning needs of adults. It should also consider how persons who are functionally illiterate or have limited basic educational skills can be identified and encouraged in non-coercive ways to participate in basic literacy instruction. Finally, this should evaluate how the financial costs and time required for skill and competency gains vary with different approaches.

6. **Education and Training for Management** (EDC/Industry Committee)

The economic, technological, and structural changes that have been sweeping the OECD member countries, through their impacts on everything from the nature of capital stock, to competitive strategies, to the organisation of work, to human resource management strategies, have had profound impacts on the demands placed on management. The emerging importance of FET and skill formation complicates still further the essential management role of making decisions about how factor inputs are put together in production. Yet the question of how managers are educated and trained is rarely addressed in connection with the changing work environment which they face.

This activity would briefly examine the factors influencing the changing role of management in enterprises, and then explore in detail the means by which managers are developed through education, training and experience in the various OECD countries. In so doing the activity would:

i) document, to the extent possible, the structure and scale of the management function in OECD countries, and the place of management in overall occupational structures (formal qualifications, managerial/non-managerial worker ratio, relative salaries, etc.);

ii) examine the formal arrangements for initial and further management education and training, indicating the different national "traditions";

iii) document the extent to which there exists informal education and training arrangements and those based in enterprises themselves, and evaluate their relationship to formal arrangements (substitutes, complements).

iv) identify innovative ideas and practices in planning, designing, delivering and assessing the effectiveness of management education and training programmes.

Insofar as this activity lends itself to the Organisation's commitments to assist the countries of central and eastern Europe, it would be developed and implemented in co-ordination with the Centre for Co-operation with European Economies in Transition.